

Message Text

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SUBJECT:OECD AD HOC MEETING AND GATT BOP CONSULTATION ON
FINNISH IMPORT DEPOSIT SCHEME AND BOP SITUATION

REF: A. OECD PARIS 7873, B. HELSINKI 570 NOTAL,
C. STATE 063716, D. OECD PARIS 9416

1. PRIMARY CONSIDERATION FOR U.S. IN OECD REVIEW OF
FINNISH SITUATION IS TO MINIMIZE DAMAGE TO TRADE PLEDGE
AND OBJECTIONS TO ITS RENEWAL. IN BOTH OECD AND GATT
EXAMINATIONS, WE WISH TO ENCOURAGE OTHER COUNTRIES FACING
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NECESSITY FOR BALANCE OF PAYMENTS ADJUSTMENT TO EMPLOY
POLICIES WHICH ARE ACCEPTABLE INTERNATIONALLY. WHILE WE
WILL WISH TO ENCOURAGE THE FINNS TO REMOVE IMPORT DEPOSITS
AS SOON AS POSSIBLE, DELS SHOULD SHOW UNDERSTANDING FOR

UNIQUE FINNISH SITUATION AND RECOGNIZE NEED FOR TEMPORARY USE OF SUCH MEASURES IN EXTREME CASES LIKE THESE PROVIDED GOF AGREES TO TAKE APPROPRIATE NON-TRADE MEASURES SUBJECT TO A SIX-MONTH REVIEW.

2. OECD AD HOC GROUP SHOULD CONDUCT WP-3 TYPE OF REVIEW-- ELICITING FACTS OF CURRENT SITUATION AND PROSPECTS IN FINLAND, ANALYZING CAUSES AND SEEKING EXPLANATION FROM FINNS OF CONSIDERATIONS GIVEN TO FULL RANGE OF ADJUSTMENT OPTIONS.

3. U.S. SHOULD NOT PLAY A LEADING ROLE IN CRITICISM OF FINNISH POLICY. FINLAND'S TRADE IS PRIMARILY WITH EUROPEAN NEIGHBORS WHO MAY BE EXPECTED TO EXPRESS THEMSELVES FORCEFULLY. WITHOUT DOUBT, EUROPEANS WILL ADVOCATE THAT PRIMARY EMPHASIS BE PLACED ON USE OF DOMESTIC DEMAND RESTRAINT AS MEANS OF REDUCING IMPORTS AND EXPANDING EXPORTS. DELS SHOULD SUPPORT NEED FOR SUCH RESTRAINT BUT SHOULD ALSO PROBE QUESTION OF COMPETITIVE POSITION AND REMIND FINNS THAT AN ALTERNATIVE MEANS OF ACHIEVING NECESSARY TRADE CORRECTION--ALONG WITH DOMESTIC RESTRAINT--IS TO ALLOW GREATER SCOPE FOR MARKET DETERMINATION OF EXCHANGE RATES.

4. IT MAY BE USEFUL TO ACKNOWLEDGE THAT INTERNATIONAL COMMUNITY ACCEPTS THE NEED FOR CHANGE IN BALANCE OF FINLAND'S TRADE BUT WISHES TO SEE THE COMMUNITY ALLOCATION OF THAT CHANGE DETERMINED BY MARKET FACTORS RATHER THAN GOVERNMENTAL MEASURES SUCH AS IMPORT DEPOSIT REGULATIONS WHICH DO NOT FALL EQUALLY ON ALL SECTORS. THUS IT IS IMPORTANT FROM INTERNATIONAL STANDPOINT THAT ALTERNATIVE ADJUSTMENT MEASURES BE UNDERTAKEN PROMPTLY SO AS TO PERMIT EARLY ELIMINATION OF IMPORT DEPOSIT SCHEME.

5. U.S. RECOGNIZES THAT RAPID DETERIORATION OF FINNISH RESERVE POSITION IN FIRST TWO MONTHS OF 1975 NECESSITATED GOF ACTION WHICH WOULD HAVE AN IMMEDIATE LIMITED OFFICIAL USE
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EFFECT IN COUNTERING SPECULATION AND DAMPENING DOMESTIC DEMAND. THOUGH REGRETTABLE, IMPOSITION OF IMPORT DEPOSIT SCHEME WAS ONE ALTERNATIVE OPEN TO GOF WHICH WOULD SERVE THIS PURPOSE, WHEN TAKEN IN CONJUNCTION WITH APPROPRIATE DOMESTIC DEMAND RESTRAINT MEASURES AND OTHER ADJUSTMENT ACTIONS. GOF MUST RECOGNIZE, HOWEVER, THAT DEPOSIT SCHEME IS NOT A SATISFACTORY SUBSTITUTE FOR MORE BASIC POLICY MEASURES, ALTHOUGH IT DOES PROVIDE BREATHING SPACE WHILE SUCH MEASURES TAKE EFFECT.

6. U.S. DELS SHOULD SEEK CONFIRMATION THAT MEASURE IS TEMPORARY AND THAT IT WILL BE APPLIED IN A STRICT NON-

DISCRIMINATORY MANNER. IN THIS REGARD WE ARE PLEASED TO NOTE THAT RECENT GOF STATEMENT ON NON-DISCRIMINATORY APPLICATION OF THE IDS AND THE DENIAL OF REPORTS THAT THE BANK OF FINLAND WOULD PROVIDE CREDITS TO OFFSET IMPORT DEPOSIT REQUIREMENTS FOR SOME CEMA COUNTRY IMPORTS.

7. U.S. DELEGATIONS SHOULD EXPRESS HOPE THAT GOF WILL UNDERTAKE TO IMPLEMENT ADDITIONAL MEASURES WHICH WILL PERMIT THE EARLY REMOVAL OF THE IMPORT DEPOSIT SCHEME. WE SHOULD URGE GOF TO GIVE SERIOUS CONSIDERATION TO

ALTERNATIVE ADJUSTMENT MEASURES AND TO MAKE APPROPRIATE USE OF AVAILABLE EXTERNAL FINANCING IN CONJUNCTION WITH EFFECTIVE ADJUSTMENT PROGRAM. SUCH A PROGRAM, COUPLED WITH AN UNDERTAKING TO REMOVE THE IDS BY A SPECIFIED DATE WOULD BE WELCOMED, WE BELIEVE, BY INTERNATIONAL COMMUNITY IN RECOGNITION OF THE UNIQUE DIFFICULTIES OF THE FINNISH SITUATION.

8. FOR OECD: MISSION MAY JOIN IN CONSENSUS AT AD HOC GROUP MEETING THAT FINNISH IDS IS VIOLATION OF OECD TRADE PLEDGE. IT IS OUR PREFERENCE THAT PLEDGE VIOLATION ASPECT OF FINNISH IDS NOT BE FOCAL POINT OF DISCUSSION. EMPHASIS SHOULD BE PLACED ON THOSE APPROPRIATE MEASURES ALONG LINES INDICATED ABOVE WHICH WILL LEAD TO EARLY REMOVAL OF IDS. MISSION SHOULD ALSO RECOGNIZE UNIQUENESS OF THE FINNISH SITUATION ALONG LINES WHICH WOULD LESSEN THE DANGER OF A PROLIFERATION OF THIS TYPE OF TRADE MEASURE CONSISTENT WITH THE AIM OF THE PLEDGE.
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FINNS SHOULD BE ASKED TO PARTICIPATE IN REVIEW OF FINNISH SITUATION IN SIX MONTHS INORDER TO SEE WHAT PROGRESS HAS BEEN MADE.

9. FOR OECD: IN ADDITION TO THOSE QUESTIONS OUTLINED IN SEC NOTE TC (78) 8, US DEL SHOULD DRAW ON THE QUESTIONS IN PARA10 BELOW AS APPROPRIATE AND SEEK CLARIFICATION OF THE FOLLOWING:

A) IN SEC NOTE TC (78) 8 P. 1 WHAT DO THE FINNS MEAN IN THEIR STATEMENT THAT "A CERTAIN DEGREE OF TRADE DEFICIT IS CONSIDERED NORMAL...?" WHAT LEVEL WOULD THIS BE?
B) WHAT ARE THE "EXCEPTIONAL REASONS" MENTIONED IN ARTICLE 13 OF THE IMPORT DEPOSIT ACT WHICH WOULD ALLOW THE COUNCIL OF MINISTERS TO EXEMPT GOODS FROM THE IDS?
C) WOULD THE FINNS DESCRIBE WHAT IMPACT THE INCOME TAX CONCESSIONS WHICH WERE PART OF THE GENERAL INCOME SETTLEMENT OF APRIL 1974 HAD ON DISPOSABLE INCOME AND THE EFFECT THIS PROGRAM MIGHT HAVE HAD ON LIQUIDITY?

10. FOR US DEL TO GATT: BOP CONSULTATION SHOULD SEEK

ANSWERS TO THE FOLLOWING QUESTIONS:

A. QUESTION: WHAT ARE THE BALANCE OF PAYMENTS PROSPECTS FOR 1975?

BACKGROUND: FINLAND HAS BEEN RUNNING A DEFICIT ON ITS TRADE ACCOUNT FOR SEVERAL YEARS. THIS DEFICIT WHICH WAS CLOSE TO \$550 MILLION IN 1973 REACHED \$1.4 BILLION IN 1974 AND FOR THE FIRST 2 MONTHS OF THIS YEAR TOTALED \$472 MILLION. THE DETERIORATION IS DUE NOT ONLY TO THE SHARP INCREASE IN THE PRICE OF OIL IMPORTS, WHICH COME LARGELY FROM THE U.S.S.R., BUT ALSO TO A WEAKENING OF DEMAND IN WESTERN MARKETS FOR MAJOR FINNISH EXPORTS-- LUMBER AND PAPER--REFLECTING THE SLOWDOWN IN THOSE COUNTRIES AND THE SLUMP IN THE BUILDING TRADES. A SHARP INCREASE IN IMPORTS IN ANTICIPATION OF TRADE CONTROLS WAS REPORTEDLY A BIG FACTOR DURING THE FIRST 2 MONTHS OF THIS YEAR. SURPRISINGLY THERE DID NOT APPEAR TO BE ANY SIGNIFICANT DETERIORATION IN THE TERMS OF TRADE DESPITE THE SHARP RISE IN OIL IMPORT PRICES. SERVICING OF THE HUGE LONG TERM FOREIGN DEBT WHICH HAS PILED UP OVER THE LIMITED OFFICIAL USE
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YEARS HAS BECOME A SIGNIFICANT FOREIGN EXCHANGE BURDEN. THIS DEBT CURRENTLY AMOUNTS TO ABOUT 15 PERCENT OF GNP AND SERVICING REPRESENTS ABOUT 12 PERCENT OF CURRENT ACCOUNT EARNINGS. FINNISH RESERVES, WHICH HAD INCREASED SLIGHTLY IN 1974, DECLINED BY ABOUT \$150 MILLION TO \$560 MILLION AS OF THE END OF FEBRUARY THIS YEAR. RESERVES OF THIS MAGNITUDE ARE SMALL, SUFFICIENT TO COVER IMPORTS FOR LESS THAN 2 MONTHS. IMPOSITION OF AN IDS ALONG WITH OTHER MEASURES WHICH ARE ENVISAGED SHOULD RESULT IN SUBSTANTIAL IMPROVEMENT IN THE TRADE BALANCE AND REPRESENTS POSITION DURING THE REMAINDER OF YEAR.

B. QUESTION: HOW WILL THE FINNISH DEFICIT BE FINANCED IN 1975?

BACKGROUND: IN 1974 THE U.S.S.R. MADE ADVANCE PAYMENTS TO FINLAND FOR SHIPS AND MAJOR PROJECTS TO ENABLE FINLAND TO COVER ITS INDEBTEDNESS TO THE U.S.S.R. WITH THE WEST ITS INDEBTEDNESS WAS FINANCED LARGELY BY SHORT TERM CAPITAL INFLOW. OFFICIAL RESERVES REGISTERED LITTLE CHANGE.

C. QUESTION: DOES FINLAND PLAN TO MAKE USE OF THE IMF OIL FACILITY IN 1975 OR DRAW AGAINST ITS IMF QUOTA?

BACKGROUND: FINLAND'S POTENTIAL ACCESS TO THE OIL FACILITY IS \$294 MILLION, OF WHICH \$88.2 MILLION COULD BE DRAWN BEFORE JULY. ACCESS AFTER JULY WILL DEPEND ON

AN IMF EXECUTIVE BOARD ASSESSMENT OF AMOUNTS AVAILABLE AND OTHER DEMANDS ON THE OIL FACILITY RESOURCES. IMF QUOTAS DRAWINGS OF \$314.4 MILLION ARE AVAILABLE (INCLUDING A GOLD TRANCHE OF \$79 MILLION). THE GOLD TRANCHE IS IMMEDIATELY AVAILABLE. THE REMAINDER IS SUBJECT TO IMF POLICY CONDITIONS WHICH BECOME INCREASINGLY STRICT AND THE AMOUNT DRAWN INCREASES. THE \$79 MILLION GOLD TRANCHE POSITION IS INCLUDED AS PART OF FINLAND'S OFFICIAL RESERVES.

D. QUESTION: WHAT ADDITIONAL MEASURES DOES FINLAND PLAN TO INTRODUCE TO COMPLEMENT THE IDS? WHEN WILL THEY BE IMPLEMENTED? WHAT WILL BE THE COMBINED EFFECT ON THE LIMITED OFFICIAL USE
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DOMESTIC ECONOMY? DOES FINLAND EXPECT THAT THESE MEASURES WILL ALLOW FOR REMOVAL OF THE IDS IN THE NEAR FUTURE?

E. QUESTION: WHAT ARE THE PROCEDURES TO BE USED IN DETERMINING WHICH IMPORTED GOODS WILL BE EXEMPTED FROM THE IMPORT DEPOSIT SCHEME BECAUSE THEY ARE USED TO PRODUCE FOR EXPORT? DOES THIS EXCLUSIONARY PROVISION APPLY TO MACHINERY AND OTHER CAPITAL GOODS PURCHASED BY EXPORTING FIRMS?

BACKGROUND: IN ADDITION TO PRESENTLY DUTY-FREE IMPORTS, IMPORTS OF GOODS TO PRODUCE FOR EXPORT ARE TO BE EXEMPTED FROM THE IMPORT DEPOSIT REQUIREMENTS.

F. QUESTION: HOW WILL THE PRICE CONTROL MECHANISM PREVENT IMPORTERS FROM PASSING ON THE IMPORT DEPOSIT BURDEN TO CONSUMERS IN THE FORM OF HIGHER PRICES?

BACKGROUND: INFORMATION RECEIVED INDICATES THAT A MAJOR PART OF THE NEW OVERALL FINNISH ECONOMIC PROGRAM IS A PRICE STABILIZATION MECHANISM WHICH WILL PREVENT IMPORTERS FROM PASSING THE BURDEN OF THE DEPOSIT SCHEME THROUGH TO CONSUMERS.

G. QUESTION: WHAT ARE THE PROVISIONS OF THE NEW LAW BY WHICH REQUESTS FOR ADDITIONS TO OR DELETIONS FROM THE LISTS CAN BE MADE? WHAT CRITERIA WILL BE USED IN DETERMINING WHETHER SUCH REQUESTS WILL BE GRANTED?

H. QUESTION: ARE ANY PROVISIONS BEING CONSIDERED BY THE FINNISH GOVERNMENT TO LESSEN THE IMPACT OF THE IMPORT DEPOSIT REQUIREMENTS ON IMPORTERS OF GOODS FROM THOSE NATIONS WITH WHICH FINLAND MAINTAINS BILATERAL TRADE AGREEMENTS OR WITH WHICH FINLAND ENJOYS A TRADE SURPLUS?

BACKGROUND: FINNISH PRESS REPORTS HAVE INDICATED
THAT A RESOLUTION PASSED CONCURRENTLY WITH THE IMPORT
DEPOSIT LAW RAISED THE POSSIBILITY OF DISCRIMINATORY
IMPLEMENTATION OF THE DEPOSIT SCHEME, ESPECIALLY IN
FAVOR OF IMPORTS FROM CEMA NATIONS. SUCH DISCRIMINATION
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WOULD BE PROHIBITED BY ARTICLE XIII OF THE GATT.

I. QUESTION: GIVEN THE CURRENT PROBLEM WITH THE PAY-
MENTS BALANCE, WILL THE FINNISH AUTHORITIES CONTINUE TO
MAKE FOREIGN EXCHANGE AVAILABLE FOR IMPORTS OF ITEMS
SUBJECT TO GLOBAL QUOTAS IN EXCESS OF THE INDICATIVE
LEVELS OF THE QUOTAS?

BACKGROUND: IN PAST YEARS, THE FINNISH AUTHORITIES
HAVE MADE FOREIGN EXCHANGE AVAILABLE FOR IMPORTS IN
EXCESS OF THE INDICATIVE LIMITS IN THE GLOBAL QUOTA LIST.
THIS HAS BEEN ESPECIALLY IMPORTANT FOR U.S. EXPORTS OF
CANNED JUICES. IN THE LAST ARTICLE XII CONSULTATION THE
FINNISH REPRESENTATIVE CITED THE EXCESS FOREIGN EXCHANGE
MADE AVAILABLE AS MITIGATING ANY RESTRICTIVE EFFECTS OF
THE QUOTA SYSTEM.

J. QUESTION: WHAT ARE THE CURRENT REGULATIONS GOVERNING
THE USE OF FOREIGN SUPPLIER CREDITS BY FINNISH IMPORTERS?
DO THE REGULATIONS DIFFER DEPENDING ON THE PRODUCT
CATEGORY OF THE IMPORT? KISSINGER

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